Savings Insurance

BY LOUIS D. BRANDEIS

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Life insurance among the poor, who can pay only five or ten cents a week, is a very different matter from insurance for those who buy thousand-dollar policies and pay once a year. The wage-earner must pay twice as large a premium: only one out of eight wage-earners ever gets anything back for what he paid in, and this fortunate one gets back much less in proportion for his pittance than does the ordinary policy-holder. The present article describes all this, explains the reasons for it, and outlines a remedy. The author is a Boston lawyer who combines a large corporation practice with active devotion to public interests. He is one of the leaders of the Public Franchise League, which succeeded in bringing about a solution satisfactory to the public of the complicated gas situation in Boston, and has kept a firm control over other public-service corporations.

SAVINGS INSURANCE

THE average expectancy of life in the United States of a man 21 years old is, according to Meech's Table of Mortality, 40.25 years. In other words, take any large number of men who are 21 years old, and the average age which they will reach is $61\frac{1}{4}$ years.*

If a man, beginning with his 21st birthday, pays throughout life 50 cents a week into Massachusetts savings banks, and allows these deposits to accumulate for his family, the survivors will, in case of his death at this average age of $61\frac{1}{4}$ years, inherit $2,265.90 if an interest rate of $3\frac{1}{2}\%$ a year is maintained.†

If this same man should, beginning at age 21, pay throughout his life the 50 cents a week to the Prudential ‡ Insurance Company as premiums on a so-called "industrial" life policy for the benefit of his family, the survivors would be legally entitled to receive, upon his death at the age of $61\frac{1}{4}$ years, only $820.§

If this same man, having made his weekly deposit in a savings bank for 20 years, should then conclude to discontinue his weekly payments and withdraw the money for his own benefit, he would receive $746.20. If, on the other hand, having made for 20 years such weekly payments to the Prudential Insurance Company, he should then conclude to discontinue payments and surrender his policy, he would be legally entitled to receive only $165.

* According to the American Experience Table of Mortality, the expectancy is 41.53 years; according to Dr. Farr's General English Experience Table No. 3, it is 38.80 years.

† The average interest rate paid by the Massachusetts savings banks during the ten years ending October 31, 1905, was 3.83%. The lowest average rate of all these banks in any one year (1903) was 3.709%.

‡ The result in other industrial life insurance companies would be substantially the same.

§ The payment to be made by the insurance company would be increased by small amounts from time to time paid by way of benefits or dividends if any are declared.

So widely different is the probable result to the workingman if he selects the one or the other of the two classes of savings investment which are open to him; and yet life insurance is but a method of saving. The savings banks manage the aggregate funds made up of many small deposits until such time as they shall be demanded by the depositor; the insurance company, ordinarily until the depositor's death. The savings bank pays back to the depositor his deposit with interest less the necessary expense of management. The insurance company in theory does the same, the difference being merely that the savings bank undertakes to repay to each individual depositor the whole of his deposit with interest; while the insurance company undertakes to pay to each member of a class the average amount (regarding the chances of life and death), so that those who do not reach the average age get more than they have deposited (including interest), and those who exceed the average age less than they deposited (including interest). The fundamental object of both savings and life insurance institutions is the safe and profitable investment and care, at a minimum of expense, of funds contributed from time to time in small amounts. To attain this end, the essential qualities on the part of the management of both classes of institutions are good judgment, honesty, economy, and accuracy.

Why, then, does the workingmen's investment in industrial insurance prove relatively so disastrous?

WHAT INDUSTRIAL INSURANCE IS.

Industrial insurance is simply life insurance in small amounts of the kind commonly taken by the wage-earner. In the United States the policies average now about $140. They serve mainly to provide funds to meet the wage-earner's heavy expenses of a last illness and a decent burial. They are considered a prime necessity among the working people, so that of the 20,936,565 level premium life insurance policies outstanding in the ninety

American companies on January 1, 1905, 15,678,310 were industrial policies.

The peculiar features of industrial as distinguished from ordinary life insurance are:—

(*a*) That the premiums are fixed for all ages at 5 cents or multiples thereof, the variations for different ages being in the amount of insurance so purchased, whereas in ordinary life insurance the variation is in the amount of premium.

(*b*) That the premium is payable weekly: whereas in ordinary life insurance the premium is payable annually, semi-annually, or quarterly.

(*c*) That the premium is collected from house to house, whereas in ordinary life insurance the payments of premium are commonly remitted by mail or are made at the office of the company or of its agents.

INDUSTRIAL—INFANTILE TABLE.

Weekly Premium, *Ten Cents.*

BENEFIT PAYABLE IF POLICY HAS BEEN IN FORCE FOR	Age next birthday when policy is issued.							
	2	3	4	5	6	7	8	9
Less than three months	$16	$18	$20	$22	$24	$28	$32	$40
More than 3, but less than 6 months	20	22	26	28	32	38	44	56
More than 6, but less than 9 months	24	28	32	36	44	52	70	100
More than 9 months, but less than 1 year	30	34	40	48	58	70	100	150
One year	34	40	48	58	78	110	160	240
Two years	40	48	58	86	120	170	240	
Three "	48	58	94	130	180	240		
Four "	58	102	140	190	240			
Five "	110	150	200	240				
Six "	160	200	240					
Seven "	200	240						
Eight "	240							

One-half the above amounts will be paid for a weekly premium of five cents. No higher premium than ten cents will be taken.

Table showing the rates charged for baby insurance by the Prudential Insurance Company. For five cents a week this company will insure a child one year old, paying the parents eight dollars in case of death.

THE APPALLING WASTE IN INDUSTRIAL INSURANCE.

In the United States about 94% of all industrial insurance is furnished by three companies, the Metropolitan of New York writing 49%, the Prudential of New Jersey 36%, and the John Hancock of Massachusetts 9%. Each company issues also ordinary life policies.

The Metropolitan (which alone separates in any published statement the expense of its industrial department from its ordinary life department) discloses that the managing expenses of its industrial department in the year 1904 (exclusive of real estate taxes, insurance taxes, and departmental fees) was 42.08% of all premium receipts. The expense in the John Hancock is stated to be "about" 40%. That of the Prudential is probably higher than either of the other companies.

In the year 1904 the average expense of management of these three companies (including both the ordinary life and the industrial departments) was 37.21% of all premium receipts. Premium receipts of insurance companies correspond to deposits of savings banks. In the same year the percentage of management expenses to deposits made during the year of the 188 Massachusetts savings banks was 1.47%. In other words, the percentage of expense of management to premium receipts of these insurance companies was twenty-five times as great as that of the savings banks to their year's deposits. Yet the percentage of expense of the industrial department of these insurance companies alone is even greater than 37.21% of the premium receipts, the companies' percentage of expense being reduced by reason of the fact that the companies issue also ordinary life policies. Even the extravagantly managed Mutual Life, New York Life, and Equitable (which issue only ordinary life policies) took for such managing expenses in 1904, on the average, only 23.33% of the year's premium receipts; while the Metropolitan, the Prudential, and the John Hancock (which issued both kinds of policies) took 37.21%.

It is true that the collections of premium by an insurance company are partly for the purpose of carrying insurance risk, as well as for that of investment, while the deposits in a savings bank are accepted solely for the purpose of investment, but this circumstance does not by any means wholly destroy the significance of the foregoing comparisons.

How heavy the burden is which the present system of industrial life insurance imposes upon the workingman can, however, be fully appreciated only if we bear in mind the following facts:—

First—The Double Premium.

The premium payable for any given amount of industrial insurance is about double that payable on ordinary life non-participating policies.

Thus, in the Metropolitan, an industrial policy-holder insuring at age 21 would pay 60 cents a week, or in the aggregate $31.20 a year for a $984 policy, while he would pay only $16.55 a year for an ordinary life non-participating $1,000 policy. In the Prudential a man of 40 would pay 50 cents a week, or in the aggregate $26 a year, for a $500 policy, while he would pay only $27.03 for an ordinary life non-participating $1,000 policy.

Second—The Quadruple Expense of Management.

The proportion of the premium taken for management expenses in the case of industrial insurance is about twice as great as in the case of ordinary life non-participating policies; and, since the premium also is about twice as great as for an ordinary non-participating life policy of like amount, it follows that the industrial policy-holder pays toward expense of management four times as much as even the present expense charge borne by the ordinary life policy-holder for the same amount of insurance.

Third—The High Lapse Rate.

About two-thirds of all industrial policies lapse and are forfeited within three years of the date of issue, the premiums paid thereon proving a total loss to the policy-holder. In the year 1904 87 % of the industrial policies in the Metropolitan, the Prudential, and the John Hancock which terminated within the year were forfeited; and only 13 % resulted in any payment to the insured.

Of the 2,761,449 industrial insurance policies in these three great companies which terminated by death, surrender, and lapse during the year 1904, aggregating in amount $422,633,987, payment was made to insured on only 347,072, or about one-eighth of the policies. In other words, the holders of 2,414,377 policies, with aggregate insurance of $379,708,958, made a total loss of all premiums paid.

The fact that more than 40 % of each premium goes to expense of management, when taken alone, fails, therefore, to show how great this industrial insurance waste is. We must remember that the expense is more than 40 % of a premium which is double the ordinary premium. But even these facts considered together do not fully disclose the waste. They indicate only the loss to persisting policy-holders. We must remember also that those whose policies lapse—a great majority of all who insure—lose also (except for the temporary protection) the whole 100 % of their premiums.

THE CAUSES OF THIS WASTE.

What are the causes of this appalling waste of the workingmen's savings ?

(A) Not Financial Depravity.

Financial depravity is not an important cause. The recent insurance investigations have, it is true, disclosed in the Metropolitan and in the Prudential, as in the Equitable, the New York

Life, and the Mutual Life of New York, grave breaches of trust. These industrial companies also have paid exorbitant salaries. In them also official position and policy-holders' money have been used for private profit. By them, also, illegal contributions have been made to secure legislative favors. And, in addition, the stockholders of the Metropolitan and of the Prudential have, to a degree unknown in ordinary life companies, received unjustifiable dividends. THE CAPITAL OF THE PRUDENTIAL HAS BEEN SWELLED FROM $91,000 TO $2,000,000 OUT OF THE PREMIUMS EXACTED FROM WORKINGMEN, SO THAT NOW THE COMPANY, WHILE PAYING NOMINALLY A 10 % DIVIDEND, IN FACT PAYS TO ITS STOCKHOLDERS IN DIVIDENDS EACH YEAR AN EQUIVALENT OF 219.78 % ON THE CASH ACTUALLY PAID IN ON THE CAPITAL STOCK. The capital of the Metropolitan likewise has been swelled out of wage-earners' premiums from $500,000 to $2,000,000, so that now the company, while paying nominally a 7 % dividend, in fact pays to stockholders each year an equivalent of 28 % on the cash actually paid in on the capital stock. The profitableness of the business to stockholders and officers is further shown by the fact that the Metropolitan, in oder to increase its own business and to eliminate competition, bought out, in 1902, a small Kentucky company on terms which netted its stockholders nearly $400 per share for stock on which only $100 had been paid in.

But the amount diverted from policy-holders by financial irregularities, though large in the aggregate, is small as compared with the total of premiums paid. Financial depravity does not explain why IN FIFTEEN YEARS THE WORKINGMEN OF MASSACHUSETTS HAVE PAID $55,285,744 IN INDUSTRIAL PREMIUMS TO THESE THREE COMPANIES, AND RECEIVED BACK IN ALL ONLY $19,881,353; that is, 35.96 % of the aggregate premiums paid, without interest.* The John Hancock appears to have been managed throughout with scrupulous honesty as a mutual company, and yet in the fifteen years ending December 31, 1904, it took from Massachusetts industrial policy-holders in premiums $18,319,730, and

* The figures for the United States are not available, the payments to industrial policy-holders not being separated from those to ordinary policy-holders.

paid to them only $5,942,033, or 32.43 %, without interest, of the premiums paid.*

(B) Not Mere Extravagance.

Nor is this fearful waste of workingmen's savings due to mere extravagance in management. The working organization of these companies is said to be admirable; and, aside from a few exorbitant official salaries in the Metropolitan and the Prudential, the employees of the three companies are certainly not overpaid on the average. The Armstrong Report states that, of the 12,000 or 13,000 agents in the Metropolitan, "an enterprising man who devotes his whole time to the business" received an average of $11.64 per week; the 2,112 clerks, an average of $15; the about 2,700 assistant superintendents, $25 a week; and the about 350 superintendents $50; and that the fees paid for each medical examination and inspection were 50 cents and 25 cents respectively; that the Prudential paid to 8,582 agents on the average $14.61 per week; to 1,751 assistant superintendents, $24.24; and to 223 superintendents $95.55. Obviously, therefore, mere extravagance is not the cause of this waste of workingmen's savings.

(C) The System Vicious.

The real cause of these meagre results to the insured from industrial insurance is not financial depravity or extravagance, but the extraordinary wastefulness necessarily attendant upon the present system of supplying life insurance for workingmen.

The principal elements of expense in industrial insurance are:

(1) The initial expense on issue of policies, taken in connection with the large percentage of policies lapsed.

(2) The expense of house-to-house collection of weekly premiums.

* The insurance reserve and some surplus were, of course, accumulated also.

(A) THE INITIAL EXPENSE.

The average initial expense as figured by the Metropolitan was, in 1904, $2.07 per policy on which the average premium was 12 cents weekly. It is probably about the same in other companies. In the John Hancock the initial expense includes the agent's commission at the rate of 48 cents for placing a policy bearing 5 cents weekly premium, and the physician's fee of 50 cents. But the issue of each policy involves besides these specific charges a large pro rata for general expense, the exact amount of which is not supplied by the published accounts. The initial charge, while large in itself as compared with the year's premiums, becomes particularly burdensome to persisting policy-holders by reason of the heavy lapse rate.

"From the most careful accounting made time and again," says the John Hancock, "the weekly premium policies do not square themselves and make good the initial and current expenses and loss and provide for the State requirement of reserve, until at least three full years' premiums have been paid. . . . Not a policy that lapses before at least three full years' premiums have been paid but leaves a greater or less deficiency for the survivors to bear." . . .

"On the average fully one-half the entrants lapse their policies before the end of the first year and a majority of these within the first quarter, though no policy lapses until four weekly premiums are overdue."

The experience of the John Hancock is, of course, not exceptional. The Metropolitan lapse rate appears to be larger, and that of the Prudential still larger. The Armstrong Committee found that in the Metropolitan,—

"More than one-third of the policies issued do not survive three months, and about one-half are cancelled within a year. In 1903 the company took one week's industrial issue from each month in the year, and followed the issue through a period of twelve months, with the following result:—

		Per Cent.
Rate of lapses in first	3 month from date of issue	35.40
" " "	6 " " " "	43.57
" " "	9 " " " "	48.28
" " "	12 " " " "	51.46

In 1904 the average time for which premiums were paid on policies which lapsed within one year from issue was 6.05 weeks.

The net result to the Metropolitan Company from each policy so lapsed is as follows:—

Initial cost of policy	$2.07
Cost of carrying policy	.52
	$2.59
Average weekly premiums at 12.004 cents for 6.05 weeks . .	.726
Net loss to the company (*i.e.*, to the persisting policy-holders)	$1.864
Net loss to the insured (12.004 cents per week for 6.05 weeks)	.726

During the second year (in which about 10 % of the policies lapse) and the third year (in which about 5 % lapse) the net loss to the company (that is, to the persisting policy-holders) grows gradually less, but that to the insured whose policies lapse grows very much greater. For, while the average net loss to the insured whose policies lapse during the first year is only 73 cents, the average, figured on the same basis, for those whose policies lapse in the second year is approximately $8.88, and the average net loss to those whose policies lapse in the third year is approximately $15.12. In 1904 the Metropolitan wrote 1,829,559 new policies. Applying the above percentages to the business of the Metropolitan for the full years of 1904 and 1905, we find that 941,491 of the 1,829,559 policies written in 1904 must have lapsed within the year 1905, and that the net loss on these lapsed policies aggregated $2,438,461.68, of which the insured bore $683,522.46, and the persisting policy-holders $1,754,939.22.

(B) THE COLLECTION CHARGE.

But besides the deficit due to lapses the persisting policy-holder bears another fearful burden. Even in the honestly managed John Hancock the fee of the collector is 20 % of each week's premium, and this 20 % charge is only a part of the cost of collection. There is in addition necessarily the large expense of an elaborate system of superintendence and accounting. Bear in mind that 20 % of an industrial premium is equal to 40 % of the sum payable as premium for a like amount of ordinary insurance.

Obviously, therefore, a substantial reduction of the present cost of industrial insurance is not possible unless some radical change of system be introduced whereby the initial expenses, the cost of premium collection, and the percentage of lapses is greatly lessened.

THE SACRIFICE OF THE THRIFTY.

The supporters of the present system of industrial insurance declare that such a reduction of expenses and of lapses is impossible. They insist that the total loss to the insured and the heavy burden to the policy-holders from lapses, as well as from the huge cost of premium collection, must all be patiently borne as being the unavoidable incidents of the beneficent institution of life insurance when applied to the workingman. They declare that the appalling waste incident to the forfeiture within three years of two-thirds of all policies written is a sacrifice essential to the ultimate salvation of the small persisting minority, and that the huge expense involved in the house-to-house collection of weekly premiums is necessary to prevent still more lapses on account of the workingman's alleged lack of thrift.

IT MAY BE QUESTIONED WHETHER, IN VIEW OF THE HEAVY EXPENSE NOW ATTENDING INDUSTRIAL INSURANCE, THE DISCONTINUANCE OF PREMIUM PAYMENTS WHICH YIELD SUCH

SLIGHT PROBABILITY OF NET RETURNS IS NOT EVIDENCE RATHER OF THRIFT THAN OF THRIFTLESSNESS. It is surely difficult to justify a system of insurance as to which it may be foretold that, of the millions who are entered each year at a per capita initial expense of $2.07, a majority will not only let their policies lapse within the year, but will on the average pay in premiums only 72 cents. Does not such a record of mortality in policies prove conclusively that most of the entrants had been over-persuaded or misled into taking the insurance? BUT IF, AS THE COMPANIES CONTEND, THE DISCONTINUANCE OF PREMIUM PAYMENTS IS EVIDENCE OF THRIFTLESSNESS, SURELY THE THRIFTY WHO PERSEVERE SHOULD NOT BE COMPELLED TO SUBMIT TO A SYSTEM WHICH REQUIRES SUCH GREAT AND LARGELY USELESS SACRIFICES IN THE SUPPOSED INTEREST OF A SMALL MINORITY.

The thrifty workingman, like people of larger means, should have the opportunity of obtaining life insurance at more nearly its necessary cost.

THE REMEDY.

THE SACRIFICE INCIDENT TO THE PRESENT INDUSTRIAL INSURANCE SYSTEM CAN BE AVOIDED ONLY BY PROVIDING AN INSTITUTION FOR INSURANCE WHICH WILL RECOGNIZE THAT ITS FUNCTION IS NOT TO INDUCE WORKING PEOPLE TO TAKE INSURANCE REGARDLESS OF WHETHER THEY REALLY WANT IT OR CAN AFFORD TO CARRY IT, BUT RATHER TO SUPPLY INSURANCE UPON PROPER TERMS TO THOSE WHO DO WANT IT AND CAN CARRY IT,—AN INSTITUTION WHICH WILL RECOGNIZE THAT THE BEST METHOD OF INCREASING THE DEMAND FOR LIFE INSURANCE IS NOT ELOQUENT, PERSISTENT PERSUASION, BUT, AS IN THE CASE OF OTHER NECESSARIES OF LIFE, IS TO FURNISH A GOOD ARTICLE AT A LOW PRICE.

THE SAVINGS BANK THE BEST MEDIUM.

Massachusetts in its 189 savings banks, and the other States with savings banks similarly conducted, have institutions which, with a slight enlargement of their powers, can at a minimum of expense fill the great need of life insurance for workingmen.

The only proper elements of the industrial insurance business not common to the savings bank business are simple, and can be supplied at a minimum of expense in connection with our existing savings banks. They are:—

(*a*) Fixing the terms on which insurance shall be given.

(*b*) The initial medical examination.

(*c*) Verifying the proof of death.

The last involves an inquiry similar in character to that now performed by the clerks of savings banks in the identification of depositors.

The second is the work of a physician, who is available at no greater expense to the savings bank than to the insurance company.

The first is the work of an insurance actuary, who would be equally available to the savings banks as he is to insurance companies, if the former undertook the insurance business. And the present cost of actuarial service can be greatly reduced: first, by limiting the forms of insurance to two or three standard forms of simple policies, uniform throughout the State; and, secondly, by providing for the appointment of a State actuary, who, in connection with the insurance commissioner, shall serve all the savings-insurance banks. The work of such an actuary is, indeed, now necessarily performed in large part in each State by the insurance department, as an incident of supervising life insurance companies.

The savings banks could thus enter upon the insurance business under circumstances singularly conducive to extending to the workingman the blessing of safe life insurance at a low cost, because:—

First. The insurance department of savings banks would be mangaged by experienced trustees and officers who had been trained to recognize that the business of investing the savings of persons of small means is a quasi-public trust which should be conducted as a beneficent and not as a selfish money-making institution.

Second. The insurance department of savings banks would be managed by trustees and officers who in their administration of the savings of persons of small means had already been trained to the practice of the strictest economy.

Third. The insurance business of the savings banks, although kept entirely distinct as a matter of investment and accounting, would be conducted with the same plant and the same officials, without any large increase of clerical force or incidental expense, except such as would be required if the bank's deposits were increased. Until the insurance business attained considerable dimensions, probably the addition of even a single clerk might not be necessary. The business of life insurance could thus be established as an adjunct of a savings bank without incurring that heavy expense which has ordinarily proved such a burden in the establishment of a new insurance company.

If the individual risks were limited at first to, say, $150 on a single life, the business could be begun safely on a purely mutual basis as soon as a few hundred lives were insured, or earlier if a guaranty fund were provided. As the business increased, the limit of single risks could be correspondingly increased, but should probably not exceed $500.

Fourth. The insurance department of savings banks would open with an extensive and potent good will, and with the most favorable conditions for teaching, at slight expense, the value of life insurance. The safety of the institution would be unquestioned. For instance, in Massachusetts the holders of the 1,829,487 savings bank accounts, a number equal to three-fifths of the whole population of the State, would at once become potential policy-holders; and a small amount of advertising would soon suffice to secure a reasonably large business without solicitors.

Fifth. With an insurance clientèle composed largely of thrifty savings bank depositors, house-to-house collection of premiums could be dispensed with. The more economical monthly payments of premiums could also probably be substituted for weekly payments.

Sixth. A small initiation fee could be charged, as in assessment and fraternal associations, to cover necessary initial expenses of medical examination and issue of policy. This would serve both as a deterrent to the insured against allowing policies to lapse and a protection to persisting policy-holders from unjust burdens which the lapse of policies casts upon them.

Seventh. The safety of savings banks would, of course, be in no way imperilled by extending their functions to life insurance. Life insurance rests upon substantial certainty, differing in this respect radically from fire, accident, and other kinds of insurance. As Insurance Commissioner Host, of Wisconsin, said in a recent address:—

> "If we take a number of thousand persons of different ages, nothing is more certain in nature than that their natural deaths will occur in a series not differing very widely from that of other thousands of persons under similar circumstances.
>
> The practical experience of this theory has given to the world the mortality tables upon which life insurance premiums are ascertained and the reserves for the future needs calculated.
>
> No life insurance company has ever failed which complied strictly with the law governing the calculation, maintenance, and investment of the legal reserve. . . ."

The causes of failure in life insurance companies since Elizur Wright established the science have been excessive expense, unsound investment, or rapacious or dishonest management. To the risk of these abuses all financial institutions are necessarily subject, but they are evils from which our savings banks have been remarkably free. This practical freedom of our savings banks from these evils affords a strong reason for utilizing them to supply the kindred service of life insurance.

The theoretical risk of a mortality loss in a single institution greater than that provided for in the insurance reserve could be absolutely guarded against, however, by providing a general guaranty fund, to which all savings-insurance banks within a State would make small pro rata contributions,—a provision similar to that prevailing in other countries, where all banks of issue contribute to a common fund which guarantees all outstanding bank notes.

Eighth. In other respects, also, co-operation between the several savings-insurance banks within a State would doubtless, under appropriate legislation, be adopted; for instance, by providing that each institution could act as an agent for the others to receive and forward premium payments.

Ninth. The law authorizing the establishment of an insurance department in connection with savings banks should, obviously, be permissive merely. No savings bank should be required to extend its functions to industrial insurance until a majority of its trustees are convinced of the wisdom of so doing.

The savings banks are not, however, the only existing class of financial institutions which could be utilized for the purpose of supplying, at a low expense rate, insurance in small amounts under a system requiring frequent premium payments. Co-operative banks, as operated in Massachusetts and in some other States, would, under appropriate regulation, be admirably adapted to supply a part of the required service. The excellent record of these institutions in Massachusetts presents a most encouraging exhibit of the achievements of financial democracy when applied to small units and when operating under a wise system of supervision.

Public attention having at last been directed to this subject, our workingmen will not long submit to the needless sacrifice of their hard-earned savings, described in the following judgment of the "Armstrong Committee" on the methods of the Metropolitan Company:—

"IN FINE THE INDUSTRIAL DEPARTMENT FURNISHES INSURANCE AT TWICE THE NORMAL COST TO THOSE LEAST ABLE TO PAY FOR IT; a large proportion, if not the greater number of the insured, permitting their policies to lapse, receive no money return for their payments. Success is made possible by thorough organization on a large scale and by the employment of an army of underpaid solicitors and clerks; and from margins small in individual cases, but large in the aggregate, enormous profits have been realized upon insignificant investment."

If an opportunity for cheaper life insurance is afforded by means of an extension of the functions of our savings banks, the present industrial insurance companies may be permitted to pursue their efforts at inculcating thrift in accordance with the system which seems to them wise, and their claim that the present huge waste is inevitable will be duly tested.

BUT IF WE FAIL TO OFFER TO WORKINGMEN SOME OPPORTUNITY FOR CHEAPER INSURANCE THROUGH PRIVATE OR QUASI-PRIVATE INSTITUTIONS, THE EVER-READY REMEDY OF STATE INSURANCE IS CERTAIN TO BE RESORTED TO SOON; AND THERE IS NO OTHER SPHERE OF BUSINESS NOW DEEMED PRIVATE UPON WHICH THE STATE COULD SO EASILY AND SO JUSTIFIABLY ENTER AS THAT OF LIFE INSURANCE.

However great the waste in present life insurance methods, our workingmen will not be induced to abandon life insurance. To them, as to others, life insurance has become a prime need. It must be continued. It should be encouraged. In spite of the disastrous results of this form of savings investment, the industrial insurance business has assumed enormous proportions. On December 31, 1904, the number of industrial life policies outstanding in the three great companies (Metropolitan, Prudential, and John Hancock) was 14,731,463, as against a total of only about 5,258,255 ordinary life policies outstanding in the ninety legal reserve companies. The New York Life, with its record of 957,201 policies outstanding, had only one-eighth as many policyholders as the Metropolitan, one-sixth as many as the Prudential, and three-fifths as many as the John Hancock. In the year 1904 alone the Metropolitan, Prudential, and John Hancock wrote 3,742,209 industrial policies; that is, more than three times as many as the 90 leading level premium companies wrote of ordinary life policies during that year. In Massachusetts the predominance of industrial policies is even greater than the average. With a population of 3,000,680 there were outstanding December 31, 1904, 1,080,003 industrial policies; that is, one for every three inhabitants, counting men, women, and children, and of ordinary life policies only 257,792 were outstanding.

The demand of workingmen for life insurance will continue and will grow; but THE YEARLY TRIBUTE OF THE WORKINGMEN TO PRUDENTIAL STOCKHOLDERS OF DIVIDENDS EQUIVALENT TO 219.78% ON THE CAPITAL ACTUALLY PAID INTO THE COMPANY, THE YEARLY WASTE OF MILLIONS IN LAPSED POLICIES, IN FRUITLESS SOLICITATION, AND IN NEEDLESS COLLECTIONS, WILL CEASE. The question is merely whether the remedy shall be applied through properly regulated private institutions or whether the State must itself enter upon the business of life insurance.